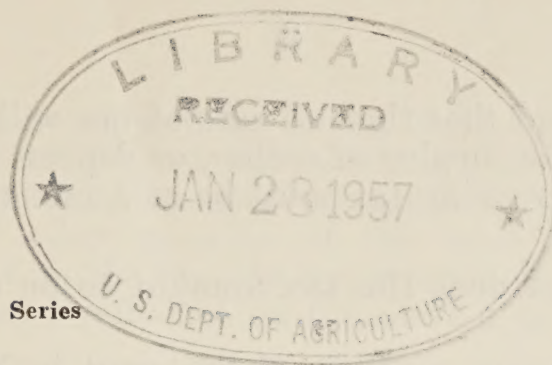


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Commodity Information Series

Cotton Leaflet No. 2
Issued October 25, 1934

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D. C.

THE COTTON PROCESSING TAX

I. WHAT THE PROCESSING TAX IS

Question 1. What is the processing tax on cotton?

Answer. The cotton processing tax is a tax paid upon the act of converting raw cotton into consumers' goods.

Question 2. Why are processing taxes levied?

Answer. To provide funds for making payments to farmers cooperating in agricultural adjustment programs.

Question 3. Who pays the tax and how much is it?

Answer. In the case of cotton, the tax is passed on to consumers and borne by them as a part of the price of cotton products sold to them. The Adjustment Act provides that the rate of tax shall be determined on the basis of the difference between the fair exchange value of cotton (exchange value, 1909-14) and the average farm price of cotton as of the date the tax becomes effective.¹ This rate is 4.2 cents per pound net weight.

Question 4. Does the processing tax put an undue burden on consumers?

Answer. No; to say that the consumer cannot bear the burden of the cotton processing tax would be to say that consumers cannot bear the burden of cotton prices that are in line with prices of other commodities.

Question 5. How much revenue is raised by this tax?

Answer. Actual receipts to June 30, 1934, were \$154,002,063.22.

Question 6. What use is made of the funds collected from the processing tax?

Answer. The funds derived from the processing tax have been and will be used for rental and parity payments incident to the 1933 and 1934-35 cotton adjustment programs.

Question 7. Why is the processing tax preferred to other revenue-raising measures?

Answer. It has been found to work; is easy to collect; is small per person, averaging less than \$1 per capita annually; is flexible

¹ Section 9 (b) of the Agricultural Adjustment Act.

because if it is found that the full rate of tax will reduce consumption and increase the surplus of cotton, or depress the farm price of cotton, then the processing tax must be at a rate that will not have these effects.²

Question 8. What does the tax amount to on certain manufactured articles?

Answer. The average amount of tax paid is about 8 cents per sheet; $3\frac{1}{2}$ cents per work shirt; $8\frac{1}{4}$ cents per pair of overalls; and slightly over 1 cent per yard of unbleached muslin.

II. WHY A PROCESSING TAX ON COTTON?

Question 9. What is the justification for asking that the consumer of cotton bear the processing tax?

Answer. The consumer is merely being asked to pay a fair price for cotton products with a view to raising to a fair level the purchasing power of the cotton producer. For years the cotton farmer was forced to sell cotton so cheaply that he destroyed his power to buy goods produced by others. This undermined national economic well-being, and injured consumers generally.

Question 10. Has the processing tax similarities to the tariff?

Answer. Yes. Prior to the enactment of the Agricultural Adjustment Act, farmers had to sell cotton on an unprotected world market while buying many goods they need on a domestic market protected by tariffs. The processing tax through rental payments and parity payments now gives cotton growers some protection in the domestic market. The increased cost of goods caused either by the processing tax or by the tariff is borne by the consumer. While the tariff is for the protection of industry, the processing tax is for the protection of agriculture.

Question 11. Would the reduction program have been possible without serious injury to growers if no processing tax had been put into effect and if there had been no rental and parity payments?

Answer. No. Cotton producers individually could not afford to take a sufficient amount of land out of cotton production without some compensation in addition to the increase in the price of cotton that resulted from the adjustment program.

Question 12. How is the cotton adjustment program financed?

Answer. The cotton adjustment program is designed to pay its way as it goes, with funds collected through the processing tax.

III. EFFECTS OF THE PROCESSING TAX

Question 13. Does the processing tax lower the price paid the producer for cotton?

Answer. No. The nature of the demand for cotton is such that consumption is not particularly altered by the existence of the tax and therefore the tax does not materially affect the price. More-

² Section 9 (b) of the Agricultural Adjustment Act.

over, the price of cotton is fixed on the world market and not entirely by the supply of American cotton or our domestic consumption. It is evident therefore that inasmuch as the American price and the price of other growths of the same staple, grade, and quality not subject to the tax are approximately the same, the tax cannot have material influence on the market price.

Question 14. What provision is made to prevent the tax from cutting down the use of cotton in the manufacture of cheap products?

Answer. The Act provides that if it is found that the tax cuts down the use of cotton in the manufacture of low-value products, the tax on cotton for that use may be suspended.³ This has already been done in the case of large-sized cotton bags.

Question 15. Has the payment of the processing tax on cotton caused excessive shifts to competing commodities, such as jute, paper, rayon, or wool?

Answer. No. The Secretary found that such shifts would occur between certain cotton and paper and jute products unless a compensating tax on the processing of those products was imposed. Pursuant to these findings compensating taxes went into effect on paper and jute under the provision of the Act which provides that compensatory taxes become effective upon the first processing of a competing commodity when it⁴ is found that the payment of the processing tax is causing or will cause excessive shifts in consumption of cotton or products of cotton.

Question. 16. Does the processing tax affect the volume of exports of manufactured cotton goods?

Answer. No. The amount of processing tax is refunded upon goods exported.

Question 17. What is Secretary Wallace's opinion of the processing tax?

Answer. Secretary Wallace recently said: "To all intents and purposes the processing tax is the farmers' tariff. It is the only effective form of tariff for producers of export crops, prices for which are determined on a world market. If America is to remain on a highly protectionist basis, therefore, the processing tax form of tariff protection, or its equivalent, would seem to be no more than just."

"* * * If no substitute is provided, and foreign purchasing power has not been increased by reduced tariffs, I am very much afraid that farm products within 3 years will be down again to a point where they will buy only half as much city products as they should buy in order to give this country a balanced prosperity. No one wants a repetition of 1932."

For more detailed information see your county committeeman, county agent, or vocational agriculture teacher.

³ Section 15 (a) of the Agricultural Adjustment Act.

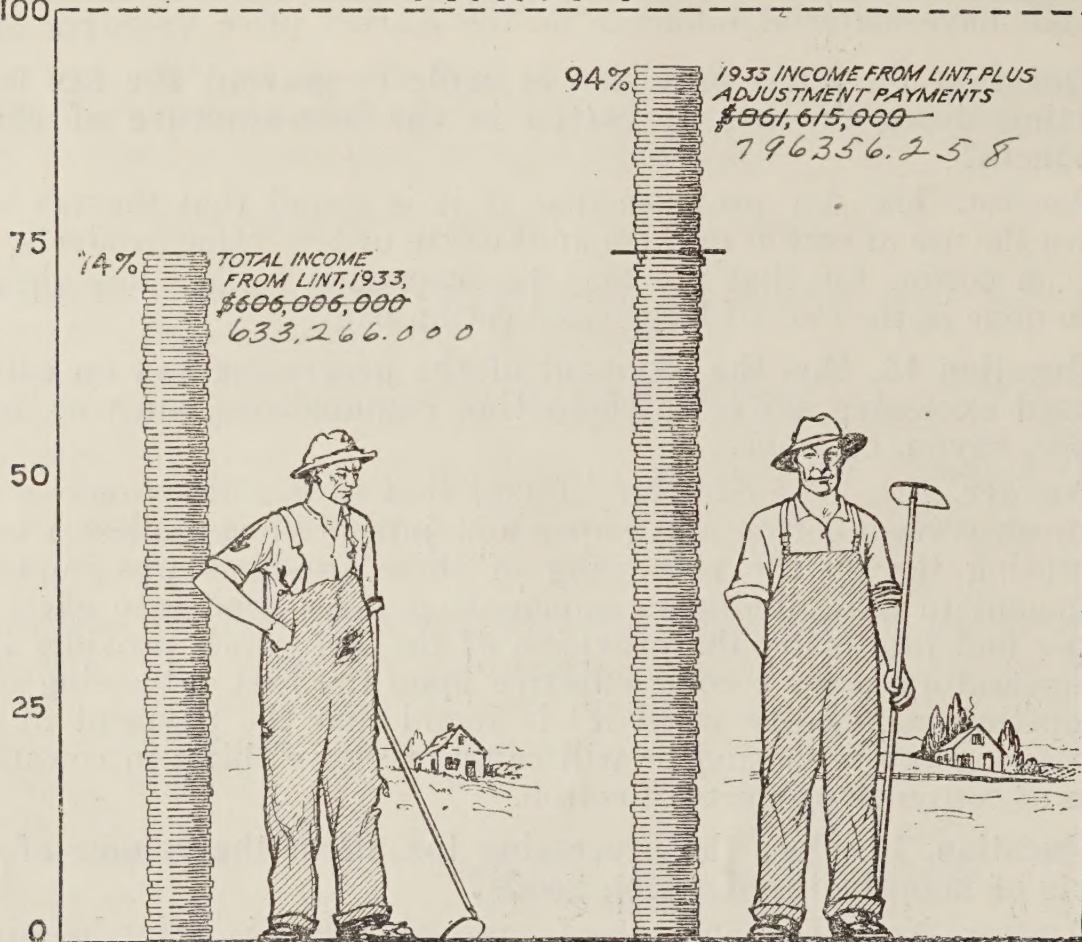
⁴ Section 15 (d) of the Agricultural Adjustment Act.

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